
Minutes

Board of Natural Resources

June 7, 2005
Natural Resources Building, Olympia, Washington

BOARD MEMBERS PRESENT

Doug Sutherland, Commissioner of Public Lands

Bob Nichols, for Governor Christine Gregoire

Bruce Bare, Dean, University of Washington, College of Forest Resources

R. James Cook, Interim Dean, Washington State University, College of Agricultural, Human, and Natural Resource Sciences

Ted Anderson, Commissioner, Skagit County

BOARD MEMBERS ABSENT

Terry Bergeson, Superintendent of Public Instruction departed at 10:30am.

CALL TO ORDER

Chair Sutherland called the meeting to order at 9:10 a.m. on, June 7, 2005, in Room 172 of the Natural Resources Building.

APPROVAL OF MINUTES

MOTION: Terry Bergeson moved to approve the May 3, 2005, Board of Natural Resources Minutes.

SECOND: Bruce Bare seconded.

ACTION: Motion passed unanimously.

PUBLIC COMMENTS FOR AGENDA ACTION ITEMS

Joseph Coppo - Open Space Coordinator - Kitsap County Parks & Recreation (Handout 1)

Mr. Coppo began by stating that the Kitsap County Board of Commissioners fully supports the proposed transfer of 256 Common School Trust acres to Natural Resource Conservation area status. He read a portion of the letter submitted by the Kitsap County Board of Commissioners: "The Hood Canal area of Kitsap County is an important natural environment supporting some of the most productive salmon runs in the Puget Sound". The letter went on to explain that Kitsap County has been actively involved in efforts to conserve and protect Stavis Creek, and that continued conservation efforts by DNR and Kitsap County would ensure the continued health of the Stavis Creek watershed.

Arlen Olson - Clearwater Investments

Mr. Olson explained that Clearwater Investments is the third party land exchange principal responsible for facilitating the Blue Mountain land exchange with DNR. He said that with any state or Federal land exchange proposal could also come difficulties, last minute details, and unexpected surprises. He noted that with the help of DNR staff and Guy Bennett Lumber Company most issues were resolved. Mr. Olson informed the Board that Guy Bennett Lumber Company had agreed to honor and except the assignment

of all grazing leases on state parcels and would also work with adjacent private landowners to either sell or further exchange many of the state parcels. He said that the lumber company had an agreement with the Washington State Department of Fish & Wildlife to work on a management approach that would address the bull trout issues and the Waitsburg watershed. He thanked the Board for the opportunity to speak.

Ms. Bergeson asked if the concerns raised were addressed.

Mr. Olson responded that from his perspective he believed that to be true.

LAND TRANSACTIONS

Stavis Creek Intergrant # 86-077132 (Handout 2)

Mr. Challstedt began by talking about the Trust Land Transfer Program explaining that there had been some changes resulting from recent legislation signed into law May 17, 2005. He said three properties, Obstruction pass, Point Lawrence, and Maury Island, could not be transferred due to high land values. The legislation authorizes the department to lease the three properties to the recipients with the lease value going to the school construction fund. The legislature also added a property, Harbour Pointe, to be transferred to the City of Mukilteo with transfer proceeds also going to the school construction fund. This action maintains the 80/20% timber to land ratio required by legislation.

Chair Sutherland asked if those leases would be transferred before the end of the biennium.

Mr. Challstedt said yes.

Mr. Challstedt began presentation of Stavis Creek by showing on a map two properties in Kitsap County about 10 miles west of Bremerton. One of the properties, 40 acres, is Common School trust and can be transferred directly. The other property, 216 acres, is Forest Board trust valued at \$570,000 and must be exchanged for Common School trust property in order to be transferred.

He then showed the Common School exchange property located on Green Mountain and explained that the Forest Board Trust would receive 99 acres with merchantable timber valued at \$570,570. The equal valued exchange positions the Common School trust onto the Stavis Creek property so that both parcels can be transferred to Natural Resource Conservation Area status. Total value of both properties is \$670,000. The timber value of \$9,500 will be deposited to the Commons School Construction account and the land value of \$660,500 will be deposited to the Real Property Replacement Account.

Mr. Challstedt noted that a public meeting was held on March 23, 2005. Eight people attended, one person testified, four letters were sent, and a letter was sent from the Kitsap Audubon Society; all in support of the exchange and transfer.

He listed the following as transfer benefits: Trust divests of property with high social and ecological values; timber value is deposited to Common School Construction account; land value is used to acquire replacement property for the Common School Trust.

Ms. Bergeson asked why the Parks Department and community are in support of this transfer.

Mr. Coppo came forward to explain that the Stavis Creek area has been heavily studied for its ecological value. He said there are very productive salmon streams especially in Stavis Creek, and Kitsap County has been active in acquiring property along Stavis Estuary to preserve the health of those streams. He

said that any property that is transferred to further meet their preservation goal is fully supported by Kitsap County.

MOTION: Terry Bergeson moved to approve Resolution #1151.

SECOND: Ted Anderson seconded.

ACTION: Motion passed unanimously.

Stavis Creek TLT #02-076970 (Handout 2)

MOTION: Bob Nichols moved to approve Resolution #1152.

SECOND: Jim Cook seconded.

ACTION: Motion passed unanimously.

Mullan Trail #02-077255 (Handout 3)

Julie Armbruster began by showing the location of the Mullan purchase in Adams County. She gave the following as a description of the parcel:

- 1284 acres of dry land farm; 1228.6 crop acres.
- Rolling topography with level bottom ground and long ridgelines that make farming efficient.
- Has access from a county road.
- 12-13 inch rainfall area.
- Production capacity per acre: 50 bushels of winter wheat, 29 bushels of spring wheat, 50 bushels of barley.
- Property will be leased at public auction.

Ms. Armbruster said the purchase price was \$614,300 and the estimated income would be \$40,500 with a 6.5% return. She explained that it's currently being farmed in two-year crop rotation and the average income is \$24,500 per year. There is also a conservation reserve program contract that produces about \$16,000 per year.

She said this purchase would add productive agricultural property to the Scientific School trust portfolio, contribute to diversification of trust assets, and is of sufficient size and quality to attract potential lessees.

Mr. Anderson asked when the conservation reserve contract expires.

Ms. Armbruster said it would expire in 2008. She said that when it expires she is not absolutely certain whether those acres would be re-enrolled; if that's the case most of the acres are farmable.

MOTION: Terry Bergeson moved to approve Resolution #1153.

SECOND: Bob Nichols seconded.

ACTION: Motion passed unanimously.

Harbour Pointe Trust Land Transfer #02-077549 (Handout 4)

Ms. VanBuren began by saying that the 2005 legislature amended the 03-05 Trust Land Transfer bill language. The amendment asks the Department to transfer Harbour Pointe to the City of Mukilteo for recreation purposes; four acres must be set aside for a recreational facility for school age children. She

said the property is located in Snohomish County within the City of Mukilteo. Ms. VanBuren said the property is Common School Trust and has been platted into 21 lots with a total of 12.18 acres. Five of the 12 acres are in wetland and associated buffers. She said only seven acres are developable and the land is zoned light industrial and has paved public access and utilities. The property was recently appraised for a total value of \$2,334,000. The land value of \$2,298,000 will go into the real property replacement account and the \$36,000 of timber value will go into the Common School Construction account. She said that because of the high land value to timber value the Harbour Pointe parcel was excluded from the normal Trust Land Transfer requirement in that the 80/20 timber to land ratio was not considered for the rest of the appropriation.

MOTION: Terry Bergeson moved to approve Resolution #1154.

SECOND: Bob Nichols seconded.

DISCUSSION: Jim Cook asked where the funding would come from.

Ms. VanBuren responded that it would come out the Trust Land Transfer appropriation.

Chair Sutherland commended Ms. VanBuren for a job well done on this transfer.

Ms. VanBuren thanked Chair Sutherland and added that a lot of people helped to make the transfer happen.

ACTION: Motion passed unanimously.

Central Area Lots Trust Land Transfer #02-077030 (Handout 5)

Ms. VanBuren said she and Mr. Scrivner would be presenting seven parcels that are part of the King Snohomish Pilot Projects. She said the purpose of the pilot project was to identify Trust Land where location limits or precludes revenue production, or if parcels may have important values for other purposes. The pilot project would facilitate repositioning and asset diversification by replacing non-revenue generating trust lands with income generating property. She added that the goal is to streamline the process where possible through batching.

Ms. VanBuren explained that the parcels were selected in collaboration with South Puget Sound and Northwest regions, Product Sales & Leasing and Asset Management & Protection Divisions. The following criteria was used: small or isolated parcels near population centers; high land values and low or no revenue generated; interest in property expressed - likely positive outcome for Trust; identified for repositioning in inventory assessments.

Ms. VanBuren state that there were six urban lots in King County and one in Snohomish that would be presented today. She informed the Board that she would be bringing more parcels similar to this in the future. She explained that five of the parcels were in Escheat Trust and one was in the Land Bank; the one parcel in Snohomish is also in the Land Bank.

Mr. Scrivner began by describing the first lot on the list as the Central Area Lot located in the International District of Seattle. He stated that the lot was approximately 5,000 square feet.

Commissioner Sutherland asked for the minimum auction price.

Mr. Scrivner said the minimum price would be \$210,000.

Mr. Cook noticed from the picture that the lot had homes all around.

Mr. Scrivner explained that it's the only undeveloped lot in a 2-block radius.

MOTION: Terry Bergeson moved to approve Resolution #1155.

SECOND: Ted Anderson seconded.

ACTION: Motion passed unanimously.

Lynnwood #02-077054 (Handout 5)

Mr. Scrivner stated that this half-acre lot located in Lynnwood, Snohomish County, had a light industrial zoning and would be put up at auction with a minimum bid of \$80,000.

MOTION: Terry Bergeson moved to approve Resolution #1156.

SECOND: Ted Anderson seconded.

ACTION: Motion passed unanimously.

208th Street Lots #02-077026 (Handout 5)

Mr. Scrivner explained that this was an accumulation of 12 lots located in Des Moines. He said there are 12 individually platted lots and the potential for four home sites on it. The minimum auction bid would be \$180,000.

Mr. Cook asked if there was any pressure from the community to keep the land undeveloped.

Mr. Scrivner said his feeling was that the City of Des Moines and the community wanted to see it developed.

MOTION: Terry Bergeson moved to approve Resolution #1157.

SECOND: Ted Anderson seconded.

ACTION: Motion passed unanimously.

Columbia #02-077029 (Handout 5)

Mr. Scrivner described the Columbia lot as being located in Seattle and 3,000 square feet in size. He said it was in a well-established neighborhood and the minimum bid price would be \$75,000.

MOTION: Terry Bergeson to approve Resolution #1158.

SECOND: Ted Anderson seconded.

ACTION: Motion passed unanimously.

Lakeview Lots #02-077027 (Handout 5)

Mr. Scrivner described the Lakeview lots as being two lots with an approximate square footage of 6,000 feet, located in Kirkland. The minimum bid would be \$190,000.

MOTION: Terry Bergeson moved to approve Resolution #1159.

SECOND: Ted Anderson seconded.

DISCUSSION: Chair Sutherland clarified that there were two lots but would be sold as one unit.

Mr. Scrivner said that was correct.

ACTION: Motion passed unanimously.

South Webster #02-077025 (Handout 5)

Mr. Scrivner described the South Webster lot as a 2,200 square foot parcel located in Seattle. It is zoned industrial and there is an existing lease on the lot that expires at the end of the month. The minimum bid would be \$40,000.

MOTION: Ted Anderson moved to approve Resolution #1160.

SECOND: Jim Cook seconded.

ACTION: Motion passed unanimously.

Wallingford #02-077028 (Handout 5)

Mr. Scrivner described this lot as being 2,200 square feet and located in Seattle. The minimum bid would be \$250,000.

MOTION: Terry Bergeson moved to approve Resolution #1161.

SECOND: Ted Anderson seconded.

ACTION: Motion passed unanimously.

Blue Mountain Purchase & Exchange #86-074800 (Handout 6)

Kit Metlen came forward and introduced Bob Winslow. He told the Board there were several innovative things that DNR was trying to do, which is not uncommon with property exchanges. He explained that since December 2004, the Department had gone from 49 closed transactions to 72; the ones being presented today are not included in the 72. The acreage had gone from 11,000 to 27,000 and the value from \$57,000,000 to \$85,000,000. Mr. Metlen said there would be a final report to the Board in September 2005. He discussed the vision for operating on the Eastside of Washington explaining that there are approximately a half a million acres of assets that should be repositioned into core businesses; the Department is moving toward that goal. He stated that the innovation that he wanted to share with the Board is that the management funds haven't always been at the desired levels, and exchanges cost up to a quarter million dollars, so to find funding DNR asked the legislature for guidance. He said in the last biennium the legislature did create a condition as follows (partially worded): RCW 79.17.010 Exchange of state lands – purposes – conditions. 4) During the biennium ending June 30, 2005, the department, with approval of the Board, may exchange any state land and any timber thereon for any land and proceeds of equal value. Proceeds may be in the form of cash or services in order to achieve the purposes established in this section.

- 1st time proviso has been implemented
- Proceeds are cash for transaction costs
- Proceeds = \$200,000 and less than 5% of exchange value
- Proceeds go into RMCA

Mr. Winslow explained that he was presenting this exchange so that the Board would be familiar with it when it came time for action later in the month. He explained that the Department is working on several items before the exchange can come to the Board for final approval. He pointed out that the parcels are located in the Southeast corner of Washington State on the perimeter of Forest Service lands. He stated that in the exchange DNR would acquire a parcel in Skagit County and one in Snohomish County.

Mr. Winslow stated that the proposal involves about 8,390 acres of DNR-managed state trust lands and about 5,043 acres of private lands located in Western Washington. This exchange involves DNR and Clearwater Investments, Inc.; Clearwater Inc. serving as the facilitator.

Ms. Bergeson asked if Clearwater Investments was a brokerage firm.

Mr. Winslow explained that the company invests in real estate but they aren't licensed real estate agents/brokers. He talked about the land exchange process stating that DNR's role is identify trust land properties for potential asset repositioning, conduct public outreach, and due diligence. The role of the exchange principle (Clearwater Investment) is to identify interested public and private landowners with different goals and assist in coordinating and matching the exchange of parcels with landowners.

Mr. Winslow stated that the trust acres for exchange were spread out over four different counties: Asotin, 3,369; Columbia, 3,327; Garfield, 80; and Walla Walla, 1,614. Total acreage is 8,390. He reported that there was a total of 5,042 private acres; 2,175 in Skagit County and 2,866 in Snohomish. He added that DNR is considering the Blue Mountain Purchase and Exchange for the following reasons:

- Increase trust revenues and asset values
- Consolidate forest land holdings
- Move trusts out of scattered and difficult to manage parcels
- Reduce land management costs
- Obtain access; improve timber haul access
- Move out of under-performing assets
- Move from "dry forest" to "irrigated forestland"

10:15 emergency evacuation.

Meeting reconvened at 10:50 (Terry Bergeson departed).

Mr. Winslow continued his presentation moving on to public comments and outreach. He described how the Department had performed extensive public outreach with this exchange including holding four workshops, two hearings, Internet postings, letters, postcards, and press releases. He noted that the Board of Natural Resources had been provided with the public hearing comments, letters, and Q&A. He wrapped up by saying that the primary comments were the following: transaction support letters, fish habitat, wildlife habitat, municipal water, future harvest, and future potential development.

Mr. Winslow showed a picture of the landscape describing it as a mosaic of forestland including grassland, timber, and species variation; he added that the terrain is rugged and remote.

He talked about the transaction component values indicating that the exchange value would be \$6,085,000, and of that \$200,000 would be a conveyance of land covered by the transaction costs. The total acquisition value would be \$8,592,000; the \$200,000 would be put back into the RMCA account. He clarified that the exchange value would be \$6,285,000 and the purchase value would be \$2,307,000. Mr. Winslow provided the following information:

Private Market Value

- Joint timber cruise; third party timber and land appraisal.
- Private forestland transaction value is \$66,800 more than appraised market value, but within range of error of appraisals.
- Request Board to consider establishing market value at \$8,392,800 for transaction.

Exchange Value (Trust Market Value)

- Joint cruise; third party timber and land appraisal.
- Common School appraised value balanced; -\$7,000 change; -0.1%.
- Total (all trusts) balanced; \$0 change; 0.0%.

Exchange Value (Market Value)

- Joint cruise; third party timber and land appraisal.
- Capitol Building trust balanced; +\$4,000 change; +3%.
- Normal School trust balanced; +\$3,000 change; +5%.

Acreage Summary

- All three trusts have reductions in acreage. Result of acquired property having higher per acre property values.
- Common School trust acreage reduced 3,172 acres.
- Capitol Building trust acreage reduced by 100 acres.
- Normal School trust acreage reduced by 75 acres.

Timber Harvest Volume - Project Volumes Over Time

- Asset repositioning from low site into high site forestland with lower management and logging costs.
- Gain in projected harvestable volume for the 75-year period is 90 million Board feet.
- Substantial increase in potential timber harvest volumes for all time periods beyond 2010.

Cost Reductions

- Reduces amount of property line by 53.4 miles.
- Provides access to trust land in Snohomish County
- Consolidates road miles into fewer locations; DNR staff can more efficiently manage the road network.
- Provides alternative rock resources for trusts; potential for rock royalty payments.
- Reduces hauling costs for some existing trust lands.
- Reduces "edge effect" costs and lost potential volumes.
- Less steep terrain equates to reduction in timber harvest costs.

Trust Value - Common School & All Trusts

- Trust value total gain is: \$2,986,100 (gain of 65%).
- Common School trust gain is: \$2,849,100 (gain of 63%).

Trust Value - Capitol Building & Normal School

- Capitol Building trust gain is: \$96,000 (gain of 165%).
- Normal School trust gain is: \$65,000 (gain of 41%).

Chair Sutherland explained that there would be no Board action today on this exchange; the Department wanted the Board to be familiar with it so they could make a motion later in the month.

Blue Mountain Agricultural Property Purchase #08-077572 (Handout 7)

Mr. Winslow presented the Blue Mountain agriculture purchase. He explained that this purchase consisted of five agricultural properties in two counties. There is a total of 2,775 acres with 762 acres in Lincoln County and 2,013 acres in Whitman County.

He gave the following reasons for acquiring the agricultural properties:

- Diversifies trust assets.
- Provides good long-term agricultural areas.
- Reinvests Real Property Replacement Account (RPRA) funds for returns to Common School trust.
- Provides annual cash flow for trusts.
- Provides dispersed recreation opportunities for the public (hunting & bird watching) for parcels fronting public roads.

He added that most of the parcels are used for cereal grains and are drying out for the summer.

Agricultural Information

- Acreage: 2,775 acres total.
- 2,457 acres of dry cropland.
- 313 acres of unimproved land.
- 5 acres of building encumbrances.
- Crops: wheat, barley, peas and lentils.
- Zoning: Agricultural District
- CRP (Conservation Reserve Program) on 199 acres.
- Mineral Rights obtained on all properties except prior reservation of iron and coal on portion of Colyar property.

Economics

- Annual Revenue projection of \$114,675 for Common School trust.
- Purchase price of \$2,074,000; price exceeds appraised value by \$64,000 but is within confidence levels of appraisals.
- Investment analysis supports acquisition of these properties at purchase price; provides 5% return.
- Lease reservations and assignments will be at 28% landowner share with tenant paying leasehold tax and all production costs.

Mr. Anderson asked if there would be an impact to the county tax structure.

Mr. Winslow said there would be quite a bit of revenue generated on these parcels through leasehold tax; sometimes leasehold tax exceeds the property tax.

Public Comments and Outreach

- Public outreach occurred with Blue Mountain Land Exchange; 4 workshops, 2 hearings, letter distribution, postcards, and Internet.
- Questions and answer sheet covered most comments.
- Most attendees were curious about DNR and its leasing program, and left better informed and more satisfied.
- Some opposition to additional government acquisition of farmland.

Chair Sutherland informed the Board that Representative Cox did not support DNR's acquisition of agricultural lands but was aware of these transactions.

Mr. Winslow said that Representative Cox had indicated that in his opinion DNR should only be able to acquire properties through multiple listing services. Mr. Winslow said that would conflict with the Department's trust duties.

MOTION: Jim Cook moved to approve Resolution #1163.

SECOND: Ted Anderson seconded.

DISCUSSION: Mr. Cook asked a question about DNR's guidelines for lessees in regards to how they farm the land.

Milt Johnston, Southeast Region, came forward and explained that there is a resource management plan that gives objectives for the farmer operator to meet, with regard to conservation tillage. On these particular parcels the direct seed approach is an option the farmer could utilize but Mr. Johnston did not know the status of these parcels. He said they offer the direct seed option for a 25% reduction in rent as an incentive during a five year period.

Mr. Cook wanted to point out that this parcel, located near Colfax, is only a few miles from the most successful direct seed operation in Washington State. He stated that a landowner, his son, and one hired man farmed 4,000 acres with a drill, sprayer, and combine, two each. He said they've been doing it for 20 years and have stopped erosion completely. Mr. Cook emphasized that this is the direction DNR should be going and he expressed his appreciation for what DNR has done to facilitate the process.

ACTION: Motion passed unanimously.

Low Valued Purchase Proposal (Handout 8)

Mr. Challstedt began by referencing the Collins acquisition that was brought to the Board last month using it as an example for the type of purchases this proposal would cover. He read from RCW 43.30.215 where it states the powers and duties of the Board:

The Board shall:

"Establish policies to ensure that the acquisition, management, and disposition of all lands and resources within the department's jurisdiction are based on sound principles designed to achieve the maximum effective development and use of such lands and resources consistent with laws applicable thereto;"

Mr. Challstedt said based on that paragraph the Board has the authority to grant DNR the ability to complete the small purchase without presenting them to the Board.

He listed the following as acquisition criteria:

- Purchases will be limited to funds from: Real Property Replacement Account & Park Land Trust Revolving Account.
- Purchase price will not exceed \$100,000.
- Acquisition to be approved by Commissioner of Public Lands.
- General property characteristics:

- In-holding or edge-holding
 - Provides access to DNR land
 - Otherwise enhance trust asset value
- Acquisition must be economically viable
 - Annual summary report will be presented to the Board.

Mr. Challstedt stated that 1% of the purchases in the past 25 years have been under \$100,000. He stated that the average purchase price in 2005 dollars is approximately \$44,875 and the average purchases per year are 1.8.

Mr. Challstedt stated that the benefits of this proposal would allow the Department to respond faster to land sales, reduce staff time, facilitate diversification and streamline the acquisition process by using Division oversight and Region implementation. The proposal would also give DNR the ability to acquire beneficial smaller properties and reduce BNR review time.

MOTION: Ted Anderson moved to approve Resolution #1164.

SECOND: Bob Nichols seconded.

DISCUSSION: Chair Sutherland added that this would be an efficiency tool for the Department and the Board would receive reports when necessary.

ACTION: Motion passed unanimously.

Resolution for RMCA Management Fee Increase (Handout 9)

Mr. Partridge began his presentation by going back to the Board's September 2004 Resolution to set the Westside Sustainable Harvest Calculation at 597 board feet per year for the next decade. He acknowledged that the Board did so with the understanding that the Department wouldn't be able to carry out all the actions needed to sell that level with the current RMCA deduction of 25%.

He stated that based on the Independent Review Committee's (IRC) recommendations the Department needs to raise the 25% an additional 5-8% to realize the increased harvest level and the corresponding increased revenue to the beneficiaries. He said that based on the IRC's recommendations DNR took a proposal to the 2005 legislature to grant the Board the authority to raise the RMCA up to 30%. He explained that the legislature amended RCW 7964, which is the Resource Management Cost Account statute, through a budget proviso. The proviso granted the Board the authority to raise the RMCA percentage to 30% for two years (05-07 biennium). The proviso is clear that the authority is for the RMCA not the Forest Development Account (FDA) that is used to manage the forest board lands.

Mr. Partridge emphasized that the Department cannot complete the SHC over the decade and the resulting beneficiary revenue with only two years worth of increased RMCA. He said DNR would start the implementation process and then approach the legislature in the subsequent biennium to see if they're willing to grant continuing authority. He asked the Board to use their authority to raise the RMCA uplands to 30% for two years starting July 1, 2005. He stated that the Board had already established guidance on how to exercise that authority which is in WAC 332-100-040; it sets the scale of RMCA fund balance oversight that the Board wishes to exercise. He added that DNR was in the process of developing their two-year budget but it has not been completed. He wanted to ensure the Board that there was no danger of the fund balance getting to a 12-month operating budget and that the 30% authority that is being requested allows the department to reach the three month minimum operating balance by the end of the

05-07 biennium. He explained that resolution 1165 describes all this in detail. Mr. Partridge concluded by asking the Board to consider adopting resolution #1165, which would raise the RMCA deduction up to 30% starting July 1, 2005, for two years.

Chair Sutherland commented that Ms. Bergeson wanted to review the report to the legislature prior to it being sent to them. The other Board members agreed and Commissioner Sutherland said that would be carried out. He added that in June 2006 there would be a report to the Board including progress on the SHC and the status of the fund balances.

Dr. Bare suggested that the suggestion to report to the Board in June 2006, and every six months after, should be added to the resolution.

Chair Sutherland said they would add a section five to the resolution.

Mr. Bare asked if the Department had made a calculation as to what fee would be required to maintain the minimum three-month balance in the fund balance.

Mr. Partridge said there isn't an official protection of that but it appears that at 30% there would be a little bit above the minimum fund balance at the end of the 2007 biennium.

MOTION: Bruce Bare moved to approve Resolution #1165 as amended.

SECOND: Ted Anderson seconded.

ACTION: Motion passed unanimously.

TIMBER SALES

Proposed Timber Sales for August & September 2004 (Handout 10)

Jon Tweedale, Assistant Manager, Product Sales and Leasing Division, presented. He began with a brief market update noting the following:

- Strong log market is extending.
- Excellent housing market in US & Canada.
- Consumer prices have stabilized (including energy).

He said that he does expect the market to hold in the next 6-12 months. He mentioned that an interesting fact in the market right now is hemlock prices have increased, which equates to the multiplier being strong. In his opinion he didn't think that the current energy or inflation prices would affect the economy.

Mr. Tweedale introduced a graph showing timber sale removals and explained that the Board doesn't usually see this aspect of the program. He said in terms of value there has been a steady decline since fiscal year 2000 for a number of reasons. He said in the last two years there has been a significant increase in stumpage value; with the increase in stumpage value and volume DNR is now seeing a replacement of value in inventory. He stated that DNR is on a trajectory to remove 700 million board feet this year, which is the highest removal rate the Department has seen in 12 years. He explained that by shortening contracts and replacing inventories DNR has been able to move sales forward and fill in some of the gaps. As the Department ramps up and increases volumes those gaps will need to be filled quickly.

Dr. Bare asked what gap Mr. Tweedale was referring to.

Mr. Tweedale responded that the gap is a result of taking next year's sales for this year; unless there is an increase in productivity and staff, that gap can't be filled.

Dr. Bare asked if there would be more thinning in the next decade.

Mr. Tweedale said that was correct. It's a balancing act of what the impact of thinning has on value and volume.

Chair Sutherland said the increase in the management fee was critical to DNR in being able to carry out the SHC.

Mr. Tweedale said that a team of DNR staff including himself, Tami Riepe, and Pete Holmberg has put on sessions about riparian training.

He said the new sales value going into inventory is averaging \$310/per thousand board foot. He added that the inventory should be zero and the return rate as high as possible.

May 2005 Sales Results:

14 sales offered and 14 sold; 75.3 mmbf offered and 75.3 mmbf sold; \$17.1 million minimum bid offered and \$24.3 million sold; \$236/mbf offered and \$323/mbf sold; average number of bidders is 2.5; 42% above minimum bid.

Proposed July 2005 Board Sales:

11 sales with 39.5 mmbf; one delivered log sale skull sorts NE; \$10.3 million minimum bid; average \$262/mbf. Recommend all 11 sales at 39,490/mbf with a minimum bid of \$10,338,300 be approved for auction for the month of July 2005.

MOTION: Commissioner Anderson moved to approve July 2005 Timber Sales.

SECOND: Dr. Bare seconded.

ACTION: Motion passed unanimously.

Aquatics Rule Amendment (Handout 11)

Dave Palazzi and Matt Niles from the Aquatics Division presented. Mr. Palazzi stated that today's presentation was intended to brief the Board on a proposed rule revision that Aquatics has recently begun to work on. The rule revision has to do with how DNR administers the aquatic reserve program; specifically, what type of uses should be permitted within an established reserve. He emphasized that today was just an informational briefing and the Board would not be expected to take action. Mr. Palazzi explained that DNR manages aquatic lands to foster water dependant uses, encourage public access, utilize renewable resources, ensure environmental protection, and generate revenue. He said that the Aquatic Reserve Program was established to emphasize environmental protection of state owned aquatic lands in September 2002, with the adopted Final Environmental Impact Statement (FEIS). He said there were three categories emphasized in the program including establishing environmental, educational, and scientific reserves. The program is implemented by accepting nominations for sites, which are then screened by DNR staff and then brought before an adhoc technical advisory committee to evaluate the proposals. The recommendations are then sent to the Commissioner for review and if approved management plans are created for each proposal accepted, which then goes through the SEPA process.

Upon completion of the SEPA process the reserve status is determined and if the site is approved to go forward, then a Commissioner order is signed.

Chair Sutherland clarified that the Commissioner's Order is not signed until the environmental review is completed.

Mr. Palazzi continued by stating that a critical component of developing an aquatic reserve is establishing a site-specific management plan including a description of the resources, the management objectives for conserving those resources, and what the desired outcome for the reserve is. He said that once this rule change is made DNR will begin work on Fidalgo Bay and Cherry Point.

Matt Niles explained that he would be providing the information regarding the rule amendment. He stated that the rule change is needed because, as it is written, it provides general direction and lacks needed specificity. It also lacks certainty and predictability for existing and future lessees. He said there were three proposed general revisions:

- How reserve designations will be made:
 - o Existing rule: Proposed reserve area must not conflict with current or projected uses of the area.
 - o Proposed amendment: Projected uses of the area determined by local, state, and federal plans.
- How new and existing leases within reserve areas will be affected by reserve designation:
 - o Existing rule: Leases in conflict with reserve status shall not be issued.
 - o Proposed amendment: Leases must be consistent with site-specific management plan that will be prepared for each reserve.
- How uses outside of reserve areas will be affected by reserve designation:
 - o Existing rule: Uses immediately adjacent to reserve areas treated as if within reserve if they have environmental impacts.
 - o Proposed amendment: Uses outside reserve areas required to be consistent with the reserve management plan if they have impacts within the reserve.

He stated that in May DNR held meetings with selected stakeholders and the proposed rule amendment was filed.

Mr. Bare asked if this addressed existing leases.

Mr. Niles said it did.

Mr. Bare said he didn't see a big distinction between the existing rule and the proposed rule for the existing leases.

Mr. Niles explained that the proposed rule doesn't include substantive criteria as to when leases will or won't be issued.

Mr. Niles informed the Board that this would be brought before them in the next couple of months for action.

CHAIR REPORTS

Mr. Mackey began by thanking Ms. Swedeen and the Department of Fish and Wildlife for their collaboration on several different projects.

Policy for Sustainable Forests

Mr. Sprague said he would continue the discussion about Old growth, older forests, public access, and recreation. He would also touch on the next steps for the July 29, Board meeting.

He referred the Board to a packet they had been give titled Old-growth and other older forests in Western Washington. He said there had been a lot of changes since the last Board discussion and probably would continue to change today. He said the changes resulted from two major factors, the first one being the amendment from the Board that was not incorporated into the materials presented in May. The second change stemmed from the comments from the Board members at the last meeting and new information gathered since the most recent discussions.

Mr. Sprague said he would start by attempting to clarify the distinction between old growth and older forests as well as the linkage between the two which helped set the context for the new draft being discussed today. He said the main point is that old growth as defined by the HCP with a pre-European settlement origin is a subset of older forests. He said he would use a chart to try and demonstrate what he's talking about. He said that the Sustainable Harvest Calculation (SHC) used or introduced stand development stages to describe structurally complex and older forests; this was substituting for age class surrogates that the HCP had started out with. He explained that the structurally complex and older forests were important outcomes that were going to result from implementation of the HCP over 70-100 years. He referenced the chart explaining that structurally complex forests are now represented by stands that are in one of the following stand development stages: Botanically diverse, Niche diversification, or Fully functional. He said that the expectation was that after 100 years of implementing the HCP, 25-35% would be in one of these three stand conditions; target acres in Western Washington would be 350,000 to 490,000.

Older forest (subset of structurally complex) involves the niche diversification and Fully functional. The target after 100 years of implementation is that 10-15% of each HCP planning unit would be in this condition. He clarified that this is not added to the 25-35% mentioned above. The target acreage would be 140,000 to 210,000 acres.

He moved on to old growth (Pre-European origin, HCP definition) (subset of older forest). There was not a specific target in the HCP for old growth but given it's definition the assumption is that old growth is in a fully functional stand development stage, with that assumption it is a subset of the older forest component which is why it can contribute to help meeting the older forest objective. Based on multiple data sources there are about 75,640 acres of Old growth as defined by the HCP.

Mr. Nichols wanted clarification that the old growth stands did not include niche diversification or botanically diverse stands.

Mr. Sprague said generally that is true. He said it's possible some old growth stands with a Pre-European origin might be in the niche diversification but the majority would be in the fully functional stage; no old growth stands would be in a botanically diverse stage.

Mr. Nichols asked for a definition of botanically diverse.

Mr. Sprague responded that the main difference between the three stages are that botanically diverse stands have larger trees and canopy differentiation, but lack the snag and down wood component in stands that are in the niche diversification and fully functional stages.

Mr. Nichols asked for a definition of Niche diversification.

Mr. Sprague said the difference between those two stages is that the fully functionally stage, over time, has become much more complex and diverse so the trees and down woody debris are bigger.

Mr. Nichols said that the fully functional stage is the umbrella term of which the niche and botanical are subsets.

Mr. Sprague said no it's the other way around. Fully functional stands are a subset of older forests both niche diversification and fully functional. He said in this context all old growth can be considered an older forest but not all older forests can be considered old growth.

Mr. Partridge said if you wanted to think of fully functional as the best quality then niche diversification is something other that's not quite as high quality, and botanically diverse is something other still that's even less high quality. Mr. Sprague added that it's the function of time between the first and the third stage.

Mr. Nichols said that was a good explanation.

Mr. Bare commented that DNR's definition of old growth is made upon a stand development stage basis. However, other criteria are added like the Pre-European origin, which isn't part of the fully functional definition from the older forests. He didn't feel that it was correct to list it as synonymous with fully functional unless there is an asterisk.

Mr. Partridge said it was not his intention to say that all fully functional stands are old growth, but that all Old growth stands are fully functional.

Mr. Sprague referred to a document titled old growth and other older forests in Western Washington. He talked about the importance of older forest structures and meeting the requirements and targets of the HCP, he also stated that older forests in this context are defined as stands in the niche diversification or fully functional stage of stand development. He then talked about the definition of old growth and that it's assumed to be in the fully functional stage of stand development, which is why it can make an important contribution to the older forest targets. He talked about the Pre-European origin old growth and how this cannot be recreated through management of forests. Through active management DNR would be creating stands that move into the niche diversification and fully functional stage.

Chair Sutherland asked Mr. Sprague to give an explanation of the 80-acre size.

Mr. Sprague explained that there is scientific literature that suggests old growth stands in 80 acre size or larger have a higher ecological function than those smaller than 80-acres, primarily due to edge effect on the stands in the smaller than 80-acre size.

Mr. Sprague moved onto the social and cultural importance of old growth and emphasized that when it's in the best interest of the trusts old growth stands can be transferred out of trust status with full compensation. He said these paragraphs are setting the stage for the policy statements the Board would see shortly.

Mr. Bare suggested that the paragraph clearly states that the reference to old growth applies only to Western Washington.

Mr. Sprague went to paragraph four and talked about the importance of setting a landscape context for deciding which old growth stands can help contribute to meeting the older forest targets. He said that some of the factors to be considered in the context of setting a landscape include the size of the stand, its proximity to other old growth or older forest stands, or the scarcity of old growth or older forest stands. Mr. Sprague talked about the conservation strategy for the Olympic Experimental State Forest (OESF) saying that it's different than the others and there is a strong research component to the OESF and as a result of that some operations in old growth stands may occur to help meet that goal.

Chair Sutherland asked if the first paragraph should clarify that this policy is related to the Policy for Sustainable Forests HCP; not to be confused with other HCP's in the Department.

Mr. Sprague said there had been a change to one of the policy statements where it talks about transferring old growth stands from trust status to conservation with full compensation to the trusts. The change was to place it up front to show that this is a tool that is available at any time whenever it's in the trust's best interest. He said this change was made in response to Board comments.

Mr. Sprague referred to the policy statement that talks about targeting 10-15% of each Western Washington HCP planning unit for older forests based on structural characteristics. He explained that this is where the language started to change to reflect the inclusion of older forests.

Mr. Partridge said there were some areas in this policy where the language may not be accurately reflecting the Board's earlier discussion that led up to the September 2004 Sustainable Harvest Calculation (SHC) decision on this topic. One of those was the inclusion of the full set of existing older forests as what would be used now to eventually meet the 10-15% target. He reminded the Board that the 10-15% target would most likely not be met for 70 years; meeting that target is going to take a combination of stands that are relatively young and managed into those structural categories, as well as stands that have that structural category now because they're old growth or other older forests.

He read the language that was brought to the Board in May and has now been crossed out, it read: "The department will target, over time, 10 to 15 percent of each Western Washington Habitat Conservation Plan planning unit for older forest conditions. The department will use retention of existing old growth stands, as defined by the Habitat Conservation plan, 80 acres and larger as a priority in achieving these targets."

Mr. Partridge said the language in that paragraph could imply that every stand should be a priority and he didn't recall that the Board had that in mind. He read the changed sentence to the policy statement as follows: "For 80 acre and larger stands of existing pre-European settlement origin (prior to 1850) old growth, as defined by the Habitat Conservation Plan, and other existing older forest defined as stands in the niche diversification or fully functional stand development stage, the first priority will be retention to meet this target."

Mr. Bare wanted to know if the HCP defined old growth the way it reads in the last line of the policy statement just read.

Mr. Sprague said if you look at the definition of old growth in the HCP it identifies a number of structures you'd find also in a fully functional stand as it's described.

Mr. Bare didn't remember the HCP mentioning 80 acres or the Pre-European origin. He wondered if the HCP defined old growth as fully functional.

Mr. Sprague said there is an age element in the HCP definition that says stands are generally greater or equal to 160 years.

Mr. Bare said it should be included in the policy.

Mr. Partridge interjected that he wanted to know if the treatment of the word priority is more consistent with what the Board wants to see reflected in the policy statement.

Mr. Sprague talked about what should happen after the 10-15% targets are met and what would happen to the remaining and existing old growth and older forests. He mentioned that these two options would deal with something that's 70 years or beyond.

Option A ~ Once older forest targets are achieved, pre-European settlement origin old growth stands and other older forest in excess of those targets may be considered for management activities consistent with Habitat Conservation plan requirements and Board of Natural Resources policy.

Option B ~ Once older forest targets are achieved, pre-European settlement origin old growth stands in excess of those targets will be protected from harvest through transfer out of trust status with full compensation. Other older forests in excess of those targets may be considered for management activities consistent with Habitat Conservation Plan requirements and Board of Natural Resources policy.

Mr. Mackey said there's a clear distinction that in lines 11-39 the policy is talking about stands that are 80 acres or above.

Mr. Sprague talked about the 2,777 acres of old growth stands smaller than 80 acres that aren't protected. He said this policy states that these stands would be evaluated for what they could contribute to site-specific HCP requirements like structurally unique trees. The department's first priority for these stands would be retention to meet any HCP or Board policy considerations. Old growth and any other older forests stands not identified for retention would be available for transfer out of trust status if they were culturally/socially significant or management of the stands upon Board review and approval.

Mr. Sprague moved onto line 16 of the policy which read, "The first priority for known single, large diameter old growth trees (generally considered greater than or equal to 40 inches in diameter at breast height and 160 years of age or older) will be retention to meet Habitat Conservation Plan requirements for large, structurally unique trees." He explained that this was the revised version based on new information from the scientific committee on old growth.

Mr. Bare pointed out that the Department's definition of old growth doesn't include the 80 acres or larger criterion.

Mr. Partridge said that was true but the policy statements do.

Mr. Cook talked about carbon pool from old growth and said there wouldn't be anything magical about 80 acres or less other than it's a smaller site.

Mr. Partridge responded that Mr. Cook was correct. He didn't feel that any part of the policy was inconsistent with taking advantage of opportunities in the future to market any stands for carbon sequestration.

Mr. Cook felt it was covered in the policy.

Mr. Partridge didn't want to connect carbon sequestration only with old growth protection; there's a variety of stand management strategies that could provide carbon offset benefits.

Mr. Bare commented that there's approximately 5% of old growth in Western Washington of the 1.4 million acres of trust land. He referred to the FEIS from the SHC and said the document says that in 2005 there was approximately 1% of land in the fully functional stage. He noted that the document says that in 70 years there would be about 5% in fully functional forests. He wondered about the gap.

Mr. Partridge responded that there were several data sources but they would answer this by the next Board meeting.

Mr. Nichols said he wanted to see a plain statement in the beginning of the policy that's clear to the public. He added that he's concerned about what's going to happen to the old growth in 70 years. He wasn't sure that the Board should be making a commitment that far out.

Mr. Partridge said the Department recognizes that.

Mr. Anderson talked about the two options and felt that option B was clear as far as pre-European origin.

Mr. Nichols said he didn't quite understand Option B.

Mr. Partridge said it's intended to mean that the stands that DNR is setting in place now are aimed at meeting the 10-15% target, mostly the pre-European origin old growth and other older forests if it doesn't quite meet the definition old growth.

Mr. Cook said that he'd like to see the policy read up front that pre-European old growth would be protected even after the targets are achieved (under option B).

Mr. Nichols said he wanted more clarification.

Mr. Partridge understood Mr. Nichols concern about the current Board deciding on something that's 70 years out. He added that anything that is considered old growth now, in 70 years, would continue to be protected, even if it's in excess of the 10-15% target.

Mr. Nichols said the policy should be clearer.

Mr. Anderson said the distinction between old growth and other older forests is that older forests at some point in time could become fully functional old growth, but they'll never be pre-European. In his opinion he didn't feel that any pre-European old growth would ever be harvested even if there was excess.

Mr. Nichols felt the policy should read just as Mr. Anderson explained the distinction between old growth and older forests.

Mr. Sprague explained that other older forests means older forests other than the pre-European origin.

Mr. Partridge said that they would work on the language and bring it back in July.

Mr. Anderson said he wanted to set a standard that none of the pre-European origin forests be cut.

Mr. Mackey asked how Mr. Anderson wanted the policy to read when he stated that none of the pre-European origin stands would be cut. Mr. Mackey wanted to know if he meant stands in 80 acres above, below, or individual trees.

Mr. Anderson said he could see how an individual tree could be cut but as a general rule the stands would not be harvested.

Mr. Nichols said he noticed the distinction between stands and areas, which is a way to identify an individual tree or trees.

Mr. Partridge asked if there were individual trees that needed to be cut would they need to be brought before the Board. He said the Board would set the policy but not require DNR to obtain approval for any single tree.

Mr. Nichols said no, not for one single tree, but if there is a stand or acres that have five pre-European in it, then it should be noted so that the Board knows that when it's voted on there are old growth trees in the sale.

Mr. Partridge asked the Board if they wanted this type of sale flagged.

Mr. Anderson thought it would be a good idea to have an asterisk or something that shows that there is old growth in the sale.

PUBLIC COMMENTS FOR GENERAL ITEMS OF INTEREST

Bob Dick - American Forest Resource Council (AFRC)

Mr. Dick suggested that the Board think about an exclusionary statement about what wouldn't be included in the policy including single old growth trees. Mr. Dick said the old growth stands have value but someday the fully functional forests won't be the way they are today. He suggested the Board think about that.

Paula Swedeen - Department of Fish & Wildlife

Ms. Swedeen thanked the Department staff for their time and effort on the old growth policy.

She talked about the old growth definition and said that the pre-European definition supports option B.

She recommended that DNR continue the pursuit of carbon markets.

Chair Sutherland asked if there was anyone else present wishing to make comment before the Board. Seeing none, hearing none.

Meeting adjourned at 2:20 p.m.

Approved this ____ day of _____, 2005

Doug Sutherland, Commissioner of Public Lands

Bob Nichols for Governor Christine Gregoire

Bruce Bare, Dean, University of Washington

R. James Cook, Dean, Washington State University (Interim)

Terry Bergeson, Superintendent of Public Instruction

Ted Anderson, Commissioner, Skagit County

Attest:

Sasha Lange, Board Coordinator